United Nations A/60/450

General Assembly

Distr.: General
27 October 2005

Original: English

Sixtieth session
Agenda items 121, 124, 134, 135 and 136

Financial reports and audited financial statements, and reports of the Board of Auditors

Proposed programme budget for the biennium 2006-2007

Financing of the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994

Financing of the International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Liabilities and proposed funding for after-service health benefits

Report of the Secretary-General*

Summary

The Advisory Committee on Administrative and Budgetary Questions, in its review of the proposed programme budget for the biennium 1998-1999 (A/52/7/Rev.1), raised the issue of the United Nations liability related to after-service health insurance benefits, and recommended that the long-term implications and

* The submission of this report was delayed owing to a need for completion of consultations on the subject matter within the Secretariat.

05-57593 (E) 021105

impact of its growth on the Organization be addressed by the Secretary-General on a system-wide basis, along with practical indications of how the Secretariat intended to address the issue.

The Board of Auditors in its concise summary of principal findings, conclusions and recommendations (A/57/201) emphasized the urgency for all organizations to recognize the end-of-service benefit liabilities and to disclose them in the financial statements. The General Assembly, in its resolution 58/249 A regarding financial reports and audited financial statements, and reports of the Board of Auditors, included a request for the Secretary-General to report to the General Assembly on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure progress towards fully funding such liabilities.

Actuarial studies estimate the present value of the accrued after-service health insurance liability as at 31 December 2003 for the United Nations and the organizations of the common system covered in the present report to range from $0.5 million to $1,484.9 million and total $4,022.9 million. Annex I provides a summary of the action taken by each organization with respect to accounting for and funding these liabilities and shows that:

- Seven organizations have taken steps to both recognize and fund the actuarial liability from several sources;
- Other organizations have not yet made provisions and are generally awaiting the action taken by the United Nations prior to finalizing their plans to fund the liabilities.

The Secretary-General requests the General Assembly to approve a number of recommendations to begin recognizing and funding the United Nations liability for after-service health insurance benefits. Actions requested to be taken by the General Assembly are included in section XI of the present report.

Contents

		Paragraphs	*Page*
I.	Introduction	1–5	4
II.	Background	6–9	4
III.	Extent of liability	10–11	6
IV.	Recognition of liability	12–13	6
V.	Funding measures for the United Nations	14–18	7
VI.	Revisions to the after-service health insurance provisions	19	8
VII.	International Criminal Tribunal for the Former Yugoslavia	20	9
VIII.	International Criminal Tribunal for Rwanda	21	9
IX.	United Nations Compensation Commission	22	10
X.	Conclusion	23–28	10
XI.	Actions to be taken by the General Assembly	29–31	11
Annexes			
I.	Status of accumulated post-retirement benefit obligation as at 31 December 2003		14
II.	United Nations funds, programmes and other organizations		16
III.	Glossary of terms		22
IV.	Historical perspective of the after-service health insurance programme of the United Nations		24

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions, in its reviews of the proposed programme budgets for the biennium 1998-1999,[1] raised the issue concerning the accrued liability for after-service health insurance benefits for the United Nations and the other organizations in the common system. The Advisory Committee requested that urgent attention be given to the matter, and that the long-term implications and the impact of the growth in the liability upon the Organization be addressed on a system-wide basis in a report by the Secretary-General. The Advisory Committee also urged the United Nations to report on its liability and to indicate how it intended to address the issue.

2. The Board of Auditors, in its concise summary of principal findings, conclusions and recommendations (A/57/201), emphasized the urgency for all organizations to recognize the end-of-service benefit liabilities and to disclose them in the financial statements. General Assembly resolution 58/249 A of 23 December 2003 regarding financial reports and audited financial statements and reports of the Board of Auditors, included a request for the Secretary-General to report to the General Assembly on the full extent of unfunded staff termination and post-service liabilities in the United Nations and its funds and programmes and to propose measures that would ensure progress towards fully funding such liabilities.

3. As acceptable under the United Nations System Accounting Standards, liabilities related to after-service health benefits and other end-of-service entitlements are currently disclosed in the notes to the financial statements. Other accounting standards promulgated by professional accounting standards boards, such as the International Financial Reporting Standards, prescribe full accrual accounting requiring that liabilities associated with post-retirement benefits be recognized and reported on the balance sheet of financial statements and that the annual accrual of future benefits for active employees be expensed each year until employees become eligible for such benefits.

4. Currently most of the organizations in the United Nations common system account for after-service health benefits on a "pay-as-you-go" or cash basis. In many cases these expenditures are not necessarily separately identified within staff costs. In other cases the expenditures are specifically identified. A number of organizations have now decided, given the significance of the liability involved, to recognize a liability in the accounts for after-service health insurance benefits and, at the same time, identify sources from which the liability can be funded.

5. The present report specifically deals with the liability of the United Nations in respect of after-service health insurance. Details pertaining to action by funds, programmes and other organizations are included in annex II to the report. Annex III contains a glossary of terms. Annex IV contains an historical perspective on the after-service health insurance programme.

II. Background

6. The United Nations provides employees who have met certain eligibility requirements with medical and dental coverage and other post-termination benefits such as accrued annual leave and repatriation grant. The liabilities pertaining to these benefits have not been recognized on financial statements. After-service

medical and dental benefits are paid and expensed as an ongoing charge to the regular budget under section 32, Special expenses, for after-service health insurance (A/58/6 (Sect. 32)). Accrued annual leave and repatriation grant are in general paid and expensed at the time of the separation of staff. A valuation of the liability for these benefits is done periodically and the value is disclosed in the notes to the financial statements. Disclosure of post-termination liabilities in the notes to the United Nations financial statements currently covers: after-service health insurance benefits; accrued annual leave; and repatriation grant.

7. The United Nations health insurance programmes provide for premium sharing between the United Nations and plan participants (active and retired) in accordance with General Assembly resolutions 1095 (XI) of 27 February 1957, 38/235 of 20 December 1983 and 41/209 of 11 December 1986, as follows (in percentages):

Health insurance schemes	*United Nations portion*	*Participant portion*
Headquarters plans	66.67	33.33
Medical insurance plan for locally recruited staff	75.00	25.00
All other plans outside the United States of America	50.00	50.00

Each health insurance plan provides coverage for both active and retired staff in a single pool. Since 1974, costs have been apportioned between retired and active staff with the result that the contribution rate for after-service health insurance participants is approximately half the rate as that for active staff members so that the cost of the active and retired groups combined meet the sharing ratios noted above. Currently, the United Nations accounts for payment of the subsidy portion of retirees' premium for after-service health coverage on a "pay-as-you-go" basis. The subsidy is paid on behalf of retired staff members who have met the eligibility requirement of the minimum age of 55 and 10 years of participation in a United Nations health plan while they were staff members. Retirees with the required minimum age of 55 and at least five years of participation pay the full premium for the number of years short of meeting the eligibility requirements for the United Nations subsidy.

8. Since the inception of the after-service health insurance programme in the United Nations, the programme has grown in terms of both the number of participants and the related cost. Beginning in 1999, the increase in enrolment has become steady and has demonstrated a tendency to accelerate owing to the ageing population of active staff health plan subscribers. In view of historical trends, projections indicate that enrolments and medical costs will continue to spiral upwards, fuelled by demographics, increases in the rate of medical care utilization and increases in the cost of medical treatment.

9. Under section 32 of the programme budget, Special expenses (A/58/6 (Sect. 32)), resources are appropriated for the after-service health insurance subsidy for retirees enrolled in United Nations health insurance plans. The amounts appropriated biennially do not include funding for the accrued liability for after-service health benefits earned by employees during active service. Given the rising level of these liabilities the Secretary-General considers it prudent to adopt a longer-term funding policy that provides predictable yet flexible annual contribution levels which support the process of ensuring that adequate funds are put aside on a regular

basis to meet the costs of current plan participants and future benefit liabilities. Such a funding strategy will also reduce total cash costs, due to investment earnings.

III. Extent of liability

10. The United Nations liability for after-service health insurance benefits was first disclosed in the notes to the December 1995 financial statements and updated thereafter in the subsequent biennial statements. An actuarial study as at 31 December 2003 was carried out by Mercer Human Resource Consulting to determine the accrued liability for after-service health insurance for the United Nations and a number of organizations in the United Nations system. The actuarial cost method used in the study was the "projected unit credit" cost method, which is prescribed by most accounting standards applicable to post-retirement benefits, including Financial Accounting Standard 106 and International Financial Reporting Standard 19. Various actuarial assumptions were used, including a 6 per cent discount rate and health-care cost trend rates that start at 12.5 per cent and decrease to an ultimate rate of 5.0 per cent by 2014 for medical plans administered in the United States of America and 8.25 per cent decreasing to 4.5 per cent by 2012 for plans administered outside the United States. Other factors taken into account include census data, retirement rates, turnover rates, eligibility requirements, retirees' contributions and claims experience.

11. Based on the actuarial study, the present value of the accrued liability of future benefits (net of retiree contributions) at 31 December 2003 for the United Nations is estimated to be $1,484.9 million and is allocated as follows (in millions of United States dollars):

Current retirees	770.0
Active employees — currently eligible to retire with after-service health insurance benefits	321.5
Active employees — not yet eligible to retire with after-service health insurance benefits	393.4
Total	**1,484.9**

These amounts were reflected in the notes to the 2003 financial statements. If the United Nations followed the accrual method of accounting for after-service health insurance as specified by accounting standards such as International Financial Reporting Standard 19 or Financial Accounting Standard 106, then the above liability would have had to have been reported in the 2003 financial statements, and approximately $268 million would have been chargeable as service ($92 million) and interest ($176 million) expenses during the biennium 2004-2005. On the pay-as-you-go basis a total of $79.9 million was appropriated for after-service health insurance for the biennium.

IV. Recognition of liability

12. Best accounting practices require that post-retirement benefits be accounted for on a full accrual basis. The period in which the associated liability is recognized

is based on the view that a defined post-retirement benefit plan sets forth the terms of an exchange between the employer and the employee. In exchange for the current services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, health and other welfare benefits after the employee retires. It follows from that view that post-retirement benefits are a type of deferred compensation. The employer's obligation for that compensation is incurred as the employee renders the services necessary to earn the post-retirement benefits.

13. According to International Financial Reporting Standards, the liability associated with post-retirement benefits is to be recognized when an employee has provided service in exchange for benefits to be paid in the future, and an expense is to be recognized when the entity consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits. As the current accrued liability for after-service health insurance represents the present value of future benefits for which active staff and retirees have already rendered service, it is appropriate to immediately recognize this liability on the United Nations financial statements, with subsequent incremental accruals recognized and expensed as services are rendered. International Financial Reporting Standard 19 sets out the specific liability and expense accounting requirements.

V. Funding measures for the United Nations

14. Given the size of the after-service health insurance liabilities, full funding of the accrued liabilities for the United Nations cannot be achieved in the short to intermediate term, but will require a dedicated long-term funding strategy. As a part of this strategy, funding sources must be identified to ensure that sufficient resources are available to meet all liabilities as they fall due in the future, while maintaining the Organization's annual funding at as constant a rate as possible. As annual payout requirements are projected to escalate rapidly, it is prudent to begin putting funds aside on a regular basis to build a reserve to meet these costs so as to avoid putting undue burden on subsequent years.

15. Various funding mechanisms have been explored. Several measures have been identified which, taken together, would fund the accrued liability over a long-term period.

16. The recommended funding strategy is detailed below:

(a) Annual funding for the long term:

(i) Continue with current funding arrangements for health benefit costs relating to current retirees with amounts appropriated from section 32 of the United Nations regular budget;[2]

(ii) Establish a charge equivalent to 4 per cent of salary costs on all budgets to be applied against the cost of salaries paid to staff;

(iii) Utilize unspent balance of final appropriations, if any, under the United Nations regular budget;

(iv) Utilize the excess of actual miscellaneous income over budget estimates, if any, under the United Nations regular budget;

(v) Utilize the savings in liquidation of prior periods' obligations;

(b) One-time funding of $350.0 million, comprising:

(i) Transfer of $250.0 million in unencumbered balances from fiscal year 2005 and savings on cancellation of prior period obligations under peacekeeping operations;

(ii) Transfer of $25.0 million[3] from the authorized retained surplus of the United Nations regular budget;

(iii) Transfer of $43.0 million of income from the medical and dental reserves, leaving reserve balances totalling about $97.1 million to meet future and pending claims;

(iv) Transfer of $32.0 million from the Compensation Fund, leaving about $31.5 million to meet future and pending claims.

17. The liability for future post-retirement medical and dental benefits is the sum of expected future net benefit payments, discounted for the time value of money to generate a present value of the expected post-retirement benefit obligation. The present value of this accrued liability was $1,484.9 million at 31 December 2003 based on a 6 per cent discount rate. The one-time transfer of $350 million would reduce this unfunded accrued liability to $1,134.9 million. Based on the actuarial study, it is estimated that an annual contribution of between $130 million and $150 million over a period of 30 years would result in nearly full funding of the liability for current and future retirees. The long-term measures listed in paragraph 16 above identify the proposed funding mechanisms, but these would still leave a shortfall.

18. As, an example, for the year 2005, the United Nations share of current retiree after-service health benefits has been projected at about $45 million, and the 4 per cent payroll charge is expected to generate about $40 million. This totals approximately $85.0 million, which represents approximately 60 per cent of the $130 million to $150 million that would have been needed to meet the funding required for 2005, with the remaining 40 per cent, i.e., $45 million to $65 million dependent upon funding as proposed in paragraph 29 (a) (ii) c-e below. Amounts that may be available from budgetary surpluses cannot be projected at this time, but are unlikely to generate surpluses in the order of from $90 million to $130 million per biennium. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the budget formulations for future bienniums.

VI. Revisions to the after-service health insurance provisions

19. A number of revisions to the after-service health insurance programme aimed at reducing future costs of after-service health benefits have been proposed. As existing retirees and staff have acquired rights to after-service health insurance participation under current provisions, these measures would be applied essentially to new recruits. The impact on costs would not be realized until 10 years from now. Additional ways to manage costs will be reviewed on an ongoing basis. The currently proposed revisions are as follows:

(a) An increase in eligibility requirements for subsidy from 10 to 15 years minimum participation in the United Nations health insurance plans with a "buy-in" provision after 10 years of participation;

(b) The application of a theoretical pension of a minimum of 25 years of service as the basis of assessing retiree contributions as opposed to using the actual number of years of service when less than 25;

(c) Introduction of a minimum participation requirement for after-service health insurance eligibility of dependants of at least five years at the time of retirement of the United Nations employee, or two years if the spouse has coverage with an outside employer or a national Government, except where the dependant is newly acquired within this period and is enrolled within 30 days of the effective date of the dependency relationship.

Proposals to the General Assembly to approve these revisions are included in section XI, below.

VII. International Criminal Tribunal for the Former Yugoslavia

20. The valuation report for the International Criminal Tribunal for the Former Yugoslavia as at 31 December 2003 estimates the net accrued liability to be $9.4 million. No portion of the liability has been funded, pending the establishment of a funding mechanism to be approved by the General Assembly. The Tribunal was established as a temporary body; hence immediate funding of the accrued liability and accrual for current service costs should be initiated. Annual funding is required to fund current service and interest costs and to amortize the $9.4 million net accrued liability over the remaining years of the Tribunal's operation. Proposals to the General Assembly to approve a charge of 4 per cent of the annual payroll and funding from the savings in liquidation of prior years' obligations and any excess of actual miscellaneous income over the budgeted amounts are included in section XI. The 4 per cent charge on payroll would yield approximately $1.7 million of the approximate $2.7 million estimated as current service and interest costs for 2005. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the budget formulations for future bienniums. As part of the eventual closure of the Tribunal it will be necessary to take into consideration the accrued unfunded liabilities of the Tribunal staff and to ensure that the residual amount is appropriately funded prior to closure.

VIII. International Criminal Tribunal for Rwanda

21. The valuation report for the International Criminal Tribunal for Rwanda as at 31 December 2003 estimates the net accrued liability to be $13.1 million. No portion of the liability has been funded, pending the establishment of a funding mechanism to be approved by the General Assembly. Because of the temporary nature of the International Criminal Tribunal for Rwanda, funding of the accrued liability and accrual for current service costs should be expedited. Annual funding is required to fund current service and interest costs and to amortize the $13.1 million net accrued liability over the remaining years of the Tribunal's operation. Proposals to the General Assembly to approve a charge of 4 per cent of the annual payroll, the

utilization of savings in liquidation of prior years' obligations and any excess of actual miscellaneous income over the budgeted amounts to partially fund the liability are included in section XI. The 4 per cent charge on payroll would yield approximately $1.3 million of the approximate $2.9 million estimated as current service and interest costs for 2005. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the budget formulations for future bienniums. As part of the eventual closure of the Tribunal it will be necessary to take into consideration the accrued unfunded liabilities of the Tribunal staff and ensure that the residual amount is appropriately funded prior to closure.

IX. United Nations Compensation Commission

22. The valuation report for the United Nations Compensation Commission as at 31 December 2003 estimates the net accrued liability to be $0.5 million. No portion of the liability has been funded, pending the establishment of a funding mechanism to be approved by the General Assembly. The Commission has determined that no additional staff currently on board are due to retire from the Commission before its closure, so the accrued liability represents costs associated only with current retirees. As part of the eventual closure of the Commission it will be necessary to take into consideration the accrued unfunded liabilities of the Commission retirees and ensure that the residual amount is appropriately funded prior to closure.

X. Conclusions

23. **The external auditors of the United Nations and those of the agencies have stressed the need for the organizations to fund their obligation to provide after-service health benefits. Most organizations have initiated the valuation and in some cases have recognized the liability and have begun to accrue for current service costs. For most organizations, providing a funding mechanism to meet this liability is a challenge.**

24. **The net accrued liability is significant and it will take considerable time and effort for many of the organizations to fund the current unfunded liability, and to fund current service costs for active employees as they continue to accrue. A wide range of funding mechanisms may have to be put in place by the respective organizations with the approval of the appropriate governing bodies.**

25. **For the United Nations, the surplus held in reserves and special funds is an available funding source. Partial funding of the liability from these sources would reduce the surpluses. Should the General Assembly approve proposals to fund the United Nations liability from a 4 per cent charge on payroll costs and from surpluses of the General Fund, Member States would be required to pay more in assessed or pledged contributions.**

26. **Best accounting practices prescribe the use of full accrual accounting for post-retirement benefits. Immediate recognition of the currently accrued and unfunded after-service health insurance liability supports decisions to fund the existing liability, and full accrual of after-service health insurance expenses that**

arise each year supports full funding of annual costs and helps to ensure that the unfunded liability does not increase.

27. The present report focuses on the value of the liabilities determined based on actuarial studies done as at 31 December 2003. However actuarial studies will have to be updated on an ongoing basis to refine annual funding requirements taking into account funding levels achieved, and to reflect changes in membership, benefit entitlements and in overall economic and medical cost trends. Similarly, funding methods and percentage of salary contributions will require frequent reviews.

28. The health care provided by the after-service health insurance programme is a vital element of social security for retiring staff members, many of whom cannot benefit from the national social security schemes of Member States owing to their service with the United Nations. The Secretary-General attaches a high importance to this programme and, therefore, to the viability of its financial base. The short and long-term funding strategies outlined in the present report provide a means for funding the programme taking into account the resource constraints of the Organization.

XI. Actions to be taken by the General Assembly

29. The actions to be taken by the General Assembly to fund and account for the presently accrued liability for after-service health insurance benefits of the United Nations, the International Criminal Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the United Nations Compensation Commission, and to fund the annual incremental accrual for employees in active service of these entities and any others for which the United Nations becomes responsible for maintaining the accounts are as follows:

(a) Approve funding of current and future after-service health insurance liabilities of the United Nations effective 1 January 2006 as follows:

(i) Initial funding of $350.0 million:

a. Transfer of $250.0 million from unencumbered balances and savings on, or cancellations of, prior periods' obligations of active peacekeeping missions as at the end of the 2005 fiscal year;

b. Transfer of $25.0 million from the authorized retained surplus in the United Nations General Fund;

c. In addition an amount of $43.0 million would be transferred from the medical and dental reserves;

d. An amount of $32.0 million would be transferred from the Compensation Fund to partially fund the United Nations liability;

(ii) Ongoing funding:

a. Continue biennial appropriations to cover after-service health insurance subsidy payments in respect of current after-service health insurance participants;

b. Establish a charge equivalent to 4 per cent of salary costs to be applied against the budgets to which staff salaries are charged;

c. Utilize unspent budget appropriations in the United Nations regular budget;

d. Transfer any excess of actual over estimated miscellaneous income of the United Nations General Fund;

e. Transfer of savings from liquidation of prior years' obligations;

(b) Approve changes to the after-service health insurance provisions as indicated in section VI;

(c) Authorize full recognition of the after-service health insurance liability on financial statements of the Organization;

(d) Approve funding of current and future after-service health insurance liabilities of the International Criminal Tribunal for the Former Yugoslavia effective 1 January 2006 as follows:

(i) Establish a charge equivalent to 4 per cent of the Tribunal's salary costs to fund the liability;

(ii) Transfer any excess of actual over the Tribunal's estimated miscellaneous income;

(iii) Utilize savings due to liquidation of the Tribunal's prior years' obligations;

(iv) Utilize unspent budget appropriations from the Tribunal's biennium budget;

(e) Approve funding of current and future after-service health insurance liabilities of the International Criminal Tribunal for Rwanda effective 1 January 2006 as follows:

(i) Establish a charge equivalent to 4 per cent of the Tribunal's salary costs to fund the liability of the Tribunal;

(ii) Transfer any excess of the Tribunal's actual over estimated miscellaneous income;

(iii) Utilize savings due to liquidation of the Tribunal's prior years' obligations;

(iv) Utilize unspent budget appropriations from the Tribunal's biennium budget;

(f) Approve funding of after-service health insurance liabilities of the United Nations Compensation Commission as a part of the wind-up costs of the Commission.

30. Concurrent with the approval of the General Assembly of the measures outlined above, separate special accounts for post-retirement benefits and retiree premiums would be established for the United Nations, the International Criminal Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the United Nations Compensation Commission. These accounts would be used to account for all transactions from various

sources mentioned above and to record ongoing expenditures for after-service health insurance.

31. **The United Nations will apply a prudent cash management and investment strategy with the aim of maximizing the return on the investments while preserving the principal of the funds that have been set aside to fund the liability.**

Notes

[1] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 7* (A/52/7/Rev.1), para. X.25.

[2] The amounts appropriated to pay for current retiree benefits would be transferred directly into a special account established for post-retirement after-service health insurance benefits, and retiree costs would be paid therefrom.

[3] The authorized retained surplus of the United Nations General Fund was $68.4 million at 31 December 2003.

Annex I

Status of accumulated post-retirement benefit obligation as at 31 December 2003[a]

(Millions of United States dollars)

Organization	*Completed*	*Actuarial method*[b]	*Pay-as-you-go, current retirees*	*Accruing liability*	*Accrued liability*	*Amount funded*	*Unfunded liability*
United Nations	Yes	PUC	Yes	—[c]	1 484.9	—[c]	1 484.9
International Labour Organization	Yes	PUC	Yes	No	437.0	—	437.0
World Health Organization	Yes	PUC	Yes	Yes	371.2	218.0	153.2
United Nations Educational, Scientific and Cultural Organization	Yes	PUC	Yes	No	322.6	—	322.6
Food and Agriculture Organization of the United Nations	Yes	PUC	Yes[d]	Yes	314.0	67.0	247.0
United Nations Development Programme	Yes	PUC	Yes	Yes	263.2	108.0	155.2
United Nations Children's Fund	Yes	PUC	Yes	Yes	182.5	30.0	152.5
Office of the United Nations High Commissioner for Refugees	Yes	PUC	Yes	No	136.1	—	136.1
International Atomic Energy Agency	Yes	PUC	Yes	No	80.9	—	80.9
International Telecommunications Union	Yes	PUC	Yes	No	76.2	—	76.2
United Nations Industrial Development Organization[e]	Yes	PUC	Yes	No	59.1	—	59.1
United Nations Population Fund	Yes	PUC	Yes	No	54.5	—	54.5
World Food Programme	Yes	PUC	Yes[f]	Yes	47.9	47.9	—
World Intellectual Property Organization	Yes	PUC	Yes	No	43.2	—	43.2
United Nations Office for Project Services	Yes	PUC	Yes	No	37.6	—	37.6
International Trade Centre UNCTAD/WTO	Yes	PUC	Yes	No	31.2	—	31.2
International Fund for Agricultural Development	Yes	PUC	Yes	Yes	15.0	27.3	[g]
International Civil Aviation Organization	Yes		Yes	No	28.2	—	28.2
International Criminal Tribunal for Rwanda	Yes	PUC	Yes	No	13.1		13.2
World Meteorological Organization[h]	Yes	PUC	Yes	Yes	12.1	1.3	10.8
International Criminal Tribunal for the Former Yugoslavia	Yes	PUC	Yes	No	9.4	—	9.4
United Nations University	Yes	PUC	Yes	No	1.6	—	1.6
United Nations Institute for Training and Research	Yes	PUC	Yes	No	0.9	—	0.9

Organization	*Completed*	*Actuarial method*[b]	*Pay-as-you-go, current retirees*	*Accruing liability*	*Accrued liability*	*Amount funded*	*Unfunded liability*
United Nations Compensation Commission	Yes	PUC	Yes	No	0.5	—	0.5
Total					**4 022.9**	**499.5**	**3 523.4**

[a] The accrued liability represents the present value of benefits (net of retiree contributions) that has accrued from the date of the employees' hire to the valuation date.

[b] PUC is the projected unit credit method.

[c] The United Nations has been accounting and paying for after-service health insurance liabilities on a pay-as-you-go basis with the accrued liability disclosed in the notes to the financial statements. Sources have been identified from which $75.0 million will be set aside to partially fund the liability and the General Assembly is being requested to approve an additional amount of $275.0 million, bringing the initial funding amount to $350.0 million.

[d] Formerly paid on a "pay-as-you-go" basis. Post-retirement funds have now been established and a liability of $111 million has been recorded at 31 December 2003, of which $67 million has been funded.

[e] Note the valuation of 47.3 million euros ($59.1 million at the 31 December 2003 exchange rate) reflects the accrued liability at 31 December 2002.

[f] WFP has fully funded the after-service medical benefit liability of $47.9 million.

[g] IFAD has fully funded the after-service medical benefit liability. The accounting gain of $12.3 million was scheduled to be released to profit in 2004.

[h] The liability pertaining to retired staff is valued in United States dollars and for active staff in Swiss francs.

Annex II

United Nations funds, programmes and other organizations

1. The present annex provides an overview of the estimates and details pertaining to the recognition and funding of the accrued liability and "current service costs" for other United Nations programmes and organizations as at 31 December 2003. The data is based on information obtained from the respective organizations.

International Trade Centre UNCTAD/WTO

2. The actuarial study carried out as part of a joint study estimated the accrued liability for the International Trade Centre UNCTAD/WTO (ITC) as at 31 December 2003 to be $31.2 million. ITC has not yet put any funding measures in place. It plans to establish a funding mechanism based on the decision of the General Assembly with respect to the United Nations proposals put forward in the present report.

United Nations University

3. The net accrued liability of the United Nations University (UNU) at 31 December 2003 as determined by the actuarial study is $1.6 million. UNU has not yet funded any portion of the liability, but plans to establish a funding mechanism based on the decision of the General Assembly with respect to the United Nations proposals put forward in the present report.

United Nations Institute for Training and Research

4. The net accrued liability at 31 December 2003 attributable to the United Nations Institute for Training and Research (UNITAR) is determined to be $0.9 million. UNITAR has not yet put any funding measures in place. It plans to establish a funding mechanism in line with that approved by the General Assembly for the United Nations.

United Nations Children's Fund

5. The actuarial valuation, which was a part of the joint study by Mercer, estimates the accrued liability (net of offset of retiree contributions) of the United Nations Children's Fund (UNICEF) at 31 December 2003 at $182.5 million. In 2003, UNICEF established a reserve of $30 million to partially fund the estimated liability and intends to make annual contributions to fully fund the liability. Currently disbursements for retirees are charged against budget appropriations of the periods when actual payments are made.

United Nations Development Programme

6. The actuarial study determined net accrued liability of the United Nations Development Programme (UNDP) for after-service health benefits at 31 December 2003 to be $263.2 million. UNDP has funded $54.0 million for each of the biennium ended 31 December 2001 and 2003. On a cumulative basis, UNDP has funded $108 million for after-service health insurance liabilities as at 31 December 2003. The amount set aside is over and above disbursements by UNDP for after-service health insurance for current retirees, which were included as part of the biennial support

budget expenditure. UNDP is now accounting for future costs for current employees by accruing current service costs on an annual basis.

United Nations Population Fund

7. The actuarial study for the United Nations Population Fund (UNFPA) conducted as a part of the joint study for 31 December 2003 shows an estimated accrued liability (net of offset from retiree contributions) of $54.5 million. UNFPA has not specifically provided for these accrued liabilities. Expenditures are charged against the budget appropriations of the periods when actual payments are made for current retiree benefits.

United Nations Office for Project Services

8. The actuarial valuation carried out as part of the joint study, estimates the accrued liability for the United Nations Office for Project Services (UNOPS) at $37.6 million. No provision has yet been made to accrue the current service costs or fund the liability, however UNOPS is currently considering various funding options.

Office of the United Nations High Commissioner for Refugees

9. The actuarial report for the Office of the United Nations High Commissioner for Refugees (UNHCR) estimates accrued liabilities as of 31 December 2003 of $136.1 million made up of $34.0 million for current retirees, $30.6 million for active staff currently eligible to retire and $71.5 million for active staff not yet eligible to retire.

10. Current subsidy relating to retiree premiums is included in the corresponding annual programme budget and the actual costs incurred in each financial period are reported as current year expenditure. UNHCR has not created any reserve to fund the liability for after-service medical benefits nor are any plans in place to accrue the estimated service costs.

Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development and the International Centre for the Study of the Preservation and Restoration of Cultural Property

11. The actuarial valuation of 31 December 2003 for the Food and Agriculture Organization of the United Nations (FAO) included the valuation of the after-service benefit liability for the International Fund for Agricultural Development (IFAD) and the International Centre for the Study of the Preservation and Restoration of Cultural Property (ICCROM). As in previous years, the projected unit credit method was used, however, allocation among the participating agencies was based on actual numbers of active staff and retirees participating in the scheme. Previously, the allocation was based on the aggregate pensionable remuneration. The actuary treated the after-service medical coverage scheme as a single fund for all participating agencies with the same set of assumptions, based on FAO staff demographics.

12. The principal assumptions used were: a discount rate of 5.5 per cent; expected salary increases of 2.5 per cent, medical cost increases of 4.5 per cent and general inflation of 2.0 per cent. The value of the FAO after-service medical liability at 31 December 2003 is estimated at $314 million. Beginning in 1998, FAO has

accounted for the annual costs of employees in active service by accruing these costs, while providing for the amortization of the prior service liability over a 30-year period.

13. FAO is partially funding the accrued liability for prior service from any excess of investment income over the requirements for other schemes such as the separation payments scheme and the staff compensation plan. The FAO Conference, recognizing that funding from excess investment income was insufficient to close the funding deficit, approved an additional contribution from Member States of $14 million for the financial period 2004-2005 (this amount matches the amortization amount recorded in 2002-2003). The liability recorded at 31 December 2003 was $111 million and $67 million of the accrued liability has been funded. Amounts to be approved for future funding will be reviewed in subsequent bienniums.

International Fund for Agricultural Development

14. As noted in paragraph 11 above, IFAD was included in the actuarial valuation completed for FAO. The actuarial study estimated a total accrued liability of $15.0 million, at 31 December 2003. IFAD had funded related assets which are held in a legally separate trust fund amounting to some $27.30 million, so in 2004 will release the accounting gain of $12.3 to profit. Beginning in 1988, IFAD accounts for the annual cost of the current service liability as current year expenditure in the administrative budget.

World Food Programme

15. The valuation of after-service medical benefits for the World Food Programme (WFP) was part of a joint study of the multiorganization scheme administered by FAO in 1997. The study estimated the accrued liability of WFP to be $44.8 million. This amount was fully funded based on approval by the WFP Executive Board in 1998. WFP commissioned separate studies for 2000-2001 and 2002-2003. The actuarial assumptions used to determine the accrued liability at 31 December 2003 are: discount rate of 6.0 per cent, expected salary increases of 2.5 per cent, medical cost increases of 4.5 per cent and general inflation of 2.0 per cent.

16. The study estimated the accrued liabilities for all post retirement benefits to be $61.6 million: $47.9 million for the after-service medical benefits, $3.1 million for the staff compensation plan and $10.6 million for the separation payment scheme. The reserves for the after-service medical scheme and the other two post retirement plans have been fully funded.

United Nations Educational, Scientific and Cultural Organization

17. The actuarial consultants' report for the United Nations Educational, Scientific and Cultural Organization (UNESCO) estimates an accrued liability for after-service health benefits at 31 December 2003 of $322.6 million.

18. The figure results from the roll forward of the 2002 study which used the "projected unit credit with service pro-rate" methodology and United Nations Joint Staff Pension Fund key assumptions as to morbidity, retirement and termination age, etc.

19. UNESCO is now calculating current costs for active staff members and has calculated the "current service cost" for 2004 at $7.0 million. There are no plans for

funding the liability or any proposals to recognize current service cost for the biennium 2004-2005. UNESCO provides resources to pay current retiree premiums in a specific budget line during the year of operation.

International Labour Organization and International Telecommunication Union

20. The International Labour Organization (ILO) and the International Telecommunication Union (ITU) share a staff health insurance fund. The latest actuarial valuation dated March 2004 projected the liability through December 2003 in accordance with International Financial Reporting Standard 19. The assumptions are: medical cost inflation of 5 per cent declining to 3 per cent over 10 years, a discount factor of 4.5 per cent, general inflation of 2.0 per cent and salary increases of 2.5 per cent.

21. The accrued liability of ILO at 31 December 2003 is estimated at $437.0 million, comprising $272 million for retired staff and $165 million for active staff. ILO expenses payments of benefits in respect of retired staff on a "pay-as-you-go" basis, charging the regular budget for premiums in the financial period in which they are paid. ILO has made no provision for current service costs and currently has no plans to fund the accrued liability.

International Telecommunication Union

22. The accrued liability of the International Telecommunication Union (ITU) is estimated at $76.2 million made up of $55.3 million for retired staff and $20.9 million for active staff. ITU expenses payments of benefits to retired staff on a "pay-as-you-go" basis, charging its contributions to the staff health insurance fund in the biennium that they are paid, and makes no provision for current service costs of active staff members. There are no plans to fund the accrued liability at this time.

World Health Organization

23. The World Health Organization (WHO) was the first organization to recognize the need to make provisions for post-retirement benefits and in this context funded part of the unfunded accrued liability by special annual contributions starting in 1989. The Organization established a reserve (Reserve 470.2) under paragraph 470 of the rules of the Staff Health Insurance Plan. As of 31 December 2003, the assets of the Plan amounted to $268 million of which $218 million was allocated to the Specific 470.2 Reserve.

24. The WHO actuarial study dates back to June 2000. The WHO accrued liability following Financial Accounting Standard 106 methodology, using a discount rate of 6.5 per cent, was estimated at $224.5 million with respect to retirees and $146.7 million for active staff.

25. WHO is currently having a comprehensive actuarial study carried out which should provide up-to-date projections of future liabilities for the Plan. In addition, an asset/liability study is being conducted to assist the Organization in its evaluation of the investment strategy for the Plan's assets.

Universal Postal Union

26. In view of the relatively minor amounts involved, the Universal Postal Union does not estimate the value of after-service medical benefits nor does it account for the liability.

World Meteorological Organization

27. An actuarial study of the accumulated liabilities for after-service health benefits for the World Meteorological Organization (WMO) as at 31 December 2003 estimated $6.6 million for retired staff and 6.9 million Swiss francs (equivalent to $5.5 million based on the 31 December 2003 operational rate of exchange) for active staff. The amounts have not been included in the financial statements but were disclosed in the notes to the statements. WMO had been making its contributions to after-service medical costs on a "pay-as-you-go" basis, and, beginning 2002 is funding the reserve for post-retirement benefits from a 2 per cent loading on payroll costs. The balance of the reserve amounted to SwF 1.6 million ($1.3 million) at 31 December 2003.

World Intellectual Property Organization

28. An actuarial evaluation undertaken in 1999 has been updated annually. As at 31 December 2003, the liability was estimated at SwF 54 million ($43.2 million) for after-service health benefits and SwF 21 million ($16.8 million) for separation costs. There are no plans for funding the after-service health benefit liability, but WIPO discloses the value of the liability in the notes to the financial statements. It should be noted that WIPO has accrued $10 million for separation from service benefits.

United Nations Industrial Development Organization

29. On the basis of an actuarial study carried out in 2002, the estimated accrued liability of the United Nations Industrial Development Organization (UNIDO) is 47.3 million euros (equivalent to $59.1 million). The study assumes United Nations Joint Staff Pension Fund growth rates for increases in earnings and pensions, medical cost increases of 4 per cent, and a discount factor of 8.5 per cent. There has been no funding of the liability nor are there any plans to expense current service costs in the present biennium; instead actual payments are recorded on a "pay-as-you-go" basis and reported as expenditures of the current period.

International Atomic Energy Agency

30. The International Atomic Energy Agency (IAEA) conducted an actuarial valuation of post-retirement health insurance benefits using the projected unit credit cost method. The accrued liability at 31 December 2003 was projected to be $80.9 million based on assumptions of an interest rate of 8.5 per cent and a medical inflation rate of 6 per cent.

31. No provision has yet been made to accrue the current service costs or fund the liability, however, IAEA is currently considering various funding options and continues to estimate and disclose these liabilities. The manner in which the Agency ultimately deals with this issue will be heavily influenced by decisions taken in the General Assembly relative to United Nations Secretariat proposals on treatment of the United Nations after-service health insurance liabilities.

International Civil Aviation Organization

32. An actuarial study for the International Civil Aviation Organization (ICAO) estimated the after-service health benefits liability as at 31 December 2003 to be $28.2 million ($11.9 million for retirees and $16.3 million for active staff). The study was performed in accordance with the professional standards of the Canadian Institute of Actuaries and the Canadian Accounting Standards and in accordance with generally accepted actuarial principles. The principal assumptions were: a discount rate of 6.0 per cent; an inflation rate of 4.0 per cent for dental health; and a range of 4 to 13 per cent for medical health care.

33. ICAO does not accrue the liability. The actual cost of post-retirement benefits incurred in each financial period is reported as expenditure for that period. The agency has no mechanism in place to fund the liability and has no plan to establish such a mechanism. The estimated liability is disclosed as a note to the financial statements.

Organizations for which no valuations have been conducted

34. No valuation has been conducted to show liabilities at 31 December 2003 for the United Nations Environment Programme, the United Nations Human Settlements Programme, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the World Trade Organization and the United Nations Office on Drugs and Crime.

Annex III

Glossary of terms

Accrued liability — The actuarial present value of benefits attributed to employee service rendered to a particular date. Prior to an employee's full eligibility date, the accumulated post-retirement benefit obligation as of a particular date for an employee is the portion of the expected post-retirement benefit obligation attributed to the employee's service rendered to that date. On and after the full eligibility date, the accumulated and expected post-retirement benefit obligation for an employee is the same.

Accrual basis — The accrual basis of accounting for revenue in each financial period recognizes income when it is earned or due and not when it is received. Accrual of expenditure in each financial period means that costs are recognized when obligations and/or liabilities are incurred and not when payments are made.

Actuarial present value — The current worth (on the valuation date) of an amount or series of amounts payable in the future. The actuarial present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial valuation — The determination of the accrued liability at the end of a financial period based on certain actuarial assumptions, discount rates and plan provisions.

Amortization — The process of recognizing unfunded liabilities over several financial periods.

Benefits — Health-care benefits or coverage to which participants in the after-service health insurance plan are entitled.

Cash basis (pay-as-you-go) — Accounting for benefits by expensing the costs when benefits are actually paid.

Current service costs — The cost of post-retirement benefits earned during the current period of employee active service.

Discount rates — The estimated interest rates at which post-retirement benefits could be effectively settled. Assumed discount rates are used in the measurement of the present value of future post-retirement benefit obligations.

Funded liability — The accrued liability for which the Organization sets funds aside to pay benefits at a future date.

Health-care trend rates — Assumptions about the annual rate of change in the cost of health-care benefits.

Interest cost — The accrual of interest on the accumulated post-retirement benefit obligation due to the passage of time.

Post-retirement benefits — Benefits provided by the Organization other than pension income to employees who retire from the system.

Post-retirement benefit fund — A specific account set up for asset accumulation for the purpose of paying post-retirement benefits when they are due. These assets are generally restricted to pay post-retirement benefits.

Projected unit credit method — (accrued benefit method) — An actuarial valuation method used to determine the present value of the defined benefit obligations and the related current and prior service cost. It measures each unit of benefit separately to build up the final obligation.

Accounting standards

United Nations System Accounting Standard 57 — Provides that liabilities for post-retirement benefits should be provided for in the accounts to the extent required by the financial policies of the Organization. Liabilities that are not fully provided for should be appropriately disclosed in the notes to the financial statements. Estimated liabilities should be quantified where possible, and the basis of valuation disclosed.

Financial Accounting Standard 106 — Requires advance recognition of liabilities for future payment of post-retirement benefits that are to be accrued over the working life of the employees. Under Standard 106, annual recognition of the liability requires expensing the service cost, interest cost and amortization amounts during the period — accrual basis of accounting is applied.

International Financial Reporting Standard 19 — Requires an organization to account for its obligation to pay benefits and to determine the present value of the obligation using the projected unit credit method and assumptions relating to demographics and financial variables.

Annex IV

Historical perspective of the after-service health insurance programme of the United Nations

1. Staff regulation 6.2 requires that the Secretary-General establish a scheme of social security for the staff, including provisions for health protection. From the beginning, participation in the health insurance schemes of the United Nations has been on an optional basis, and remains so at the present time. In the early days of the United Nations, health insurance was made available to serving staff members only, and without benefit of any organizational subsidy. By resolution 1095 (XI) of 27 February 1957, the General Assembly authorized that the cost of health insurance be shared on an approximately equal basis by the participating staff members and the Organization, subject to the provision that a larger measure of subsidy be granted to staff in the lower salary levels.

2. In a report submitted to the General Assembly at its twenty-first session (A/6491 and Corr.1), the Secretary-General stated that it had become evident, on the basis of experience acquired over the years, that the original arrangement under which insurance coverage was automatically terminated upon cessation of service was "unduly restrictive" and could not be justified by reference to national or international practice. The report noted that it was common practice among Member States to provide after-service health protection for national civil servants and members of their families and that such after-service coverage was already available to former staff members of several specialized agencies. Following an examination of the feasibility of extending the health protection schemes to cover retired United Nations staff members, the Secretary-General concluded that such extension, subject to certain conditions of eligibility, was entirely feasible in terms of costs to participants, payment of contributions and provision of benefits.

3. Accordingly, health insurance protection was extended to retired staff members in 1967, following the decision of the General Assembly at its 1501st plenary meeting on 20 December 1966 to approve the establishment of the after-service health insurance programme. Taking into account the precept, established by the General Assembly in resolution 1095 (XI) of 27 February 1957, that individual contributions to the health insurance scheme should be set in relation to salary level, the contributions of after-service health insurance participants were, at the outset, based on the schedule of payments applicable to in-service staff members. Thus, an after-service participant, based on the level of his or her gross pension, paid the same premium contribution as an in-service staff member at the equivalent net salary level.

4. At inception, after-service health insurance participation was open to former staff members who left the service of the United Nations at the age of retirement or for disability, provided the staff member had been a contributory participant in a United Nations health insurance plan for a specified period. In the case of retirement, the qualifying period was 10 years, and in the case of termination for disability, three years. In all cases, coverage was available only to those in receipt of a periodic benefit from the United Nations Joint Staff Pension Fund or under the rules governing compensation for service-incurred death, injury or illness. Dependants or survivors of a former staff member were also entitled to coverage under the programme under certain conditions.

5. With effect from 1 January 1974, the contribution scale for after-service health insurance subscribers in receipt of the subsidy was reduced to 50 per cent of the contributions payable by staff members. It is important to bear in mind, however, that this internal cost-apportionment arrangement does not alter the underlying cost-sharing ratio between the Organization and the contributors to the health insurance plans as a group. It reflects, rather, the transfer of a portion of the overall subsidy from in-service to after-service participants.

6. At its thirty-eighth session, the General Assembly, in resolution 38/235 of 20 December 1983, approved a proposal of the Secretary-General to modify the eligibility requirements for participation in after-service health insurance in order to bring them into line with the provisions of the United Nations Joint Staff Pension Fund. Accordingly, with effect from 1 January 1984, after-service health insurance coverage became available to staff members who, upon retirement at age 55 years or later, had participated in a United Nations contributory health insurance plan for a minimum of five years, provided that those staff members paid the full premium for the period for which their participation during active service fell short of the 10-year minimum for subsidized after-service health insurance coverage. Once their contributory in-service participation plus their unsubsidized full premium cost after-service health insurance participation reaches 10 years, they could be eligible to receive the after-service health insurance subsidy.

7. In the same resolution, the General Assembly, in addition to the modifications in eligibility criteria referred to in paragraph 6 above, approved a revision of the respective shares of the Organization and contributors in line with the formula recommended by the International Civil Service Commission and the Advisory Committee on Administrative and Budgetary Questions. Implementation of the new cost-sharing arrangement, which became effective on 1 January 1984, has resulted in the application of a ratio of 2 to 1 between the share of the Organization and the contributors (in-service and after-service combined) covered under the Headquarters health insurance schemes. The 50/50 overall sharing ratio, however, continues to be in effect at all other duty stations.

8. In section III of resolution 41/209 of 11 December 1986, the General Assembly approved arrangements proposed by the Secretary-General in his report (A/C.5/41/17) on health insurance coverage for locally recruited staff in the General Service and related categories at designated duty stations. Under these arrangements, which came into effect on 1 September 1987, the non-contributory Medical Expenses Assistance Plan as provided under Appendix E to the Staff Rules was reformulated to provide for the Medical Insurance Plan, that was contributory and whose benefit structure was comparable to other schemes offered by organizations in the common system. As a result of this initiative, after-service health insurance coverage became available for the first time to these groups of General Service staff.

9. From its inception, the after-service health insurance programme has grown substantially in terms of both the number of participants and the cost. The growth in the programme since the mid-1980s has been particularly marked, stemming from demographic phenomena, increases in utilization, and the escalation of medical costs. As an indication of this growth, it should be noted that the average after-service health insurance enrolment more than doubled from 2,672 retirees in the biennium 1984-1985, to 7,105 by the end of the biennium 2002-2003. Over the

same period, the organizational subsidy for retiree medical benefits increased almost tenfold, from $6.9 million to $67.7 million. The difference between the two rates of growth is principally attributable to the escalation of the costs of medical treatment and increases in the rates of utilization of medical services. Utilization of medical services, which encompasses the types and frequency of medical treatments, is strongly correlated with the demographic composition of the insured population, particularly in regard to age distribution. In this regard, the United Nations is experiencing, from the standpoint of the cost of health insurance, an adverse trend similar to that experienced by some national social security schemes. This is because the proportion of retirees enrolled in the health insurance schemes relative to active staff is growing. In addition, the average age of the retiree group has been rising slightly and life expectancies have increased. At the same time as people age, annual expenditures on necessary medical care tend to increase also. Thus, the combination of all these elements leads to an inexorable cost-push impact on health insurance costs and the related contributions of participants and the Organization.